

LONE TREE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2010

LONE TREE COMMUNITY SCHOOL DISTRICT

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LONE TREE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2009 Election)		
James Loan	Board President	2009
Gary Feldman	Board Member	2009
Randy Rayner	Board Member	2009
Sheila Burr	Board Member	2011
Joel Yedlik	Board Member	2011
(After September 2009 Election)		
Randy Rayner	Board President	2013
Sheila Burr	Board Member	2011
Joel Yedlik	Board Member	2011
Gary Feldman	Board Member	2013
James Loan	Board Member	2013
School Officials		
Michael Reeves	Superintendent	2010
Kelli D. Forbes	District Secretary/Treasurer	Indefinite
Brian Gruhn	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Lone Tree Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Lone Tree Community School District, Lone Tree, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Lone Tree Community School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 14, 2011 on my consideration of Lone Tree Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 45 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lone Tree Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the seven years in the period ended June 30, 2010, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
February 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lone Tree Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,830,083 in fiscal 2009 to \$3,973,511 in fiscal 2010, while General Fund expenditures increased from \$3,956,737 in fiscal 2009 to \$4,193,191 in fiscal 2010. The District's General Fund balance decreased from \$711,196 in fiscal 2009 to \$467,550 in fiscal 2010, a 34% decrease.
- The increase in General Fund revenues was attributable to increase in local tax revenues and state sources in 2010. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lone Tree Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lone Tree Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lone Tree Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and enterprise funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Lone Tree Community School District Annual Financial Report

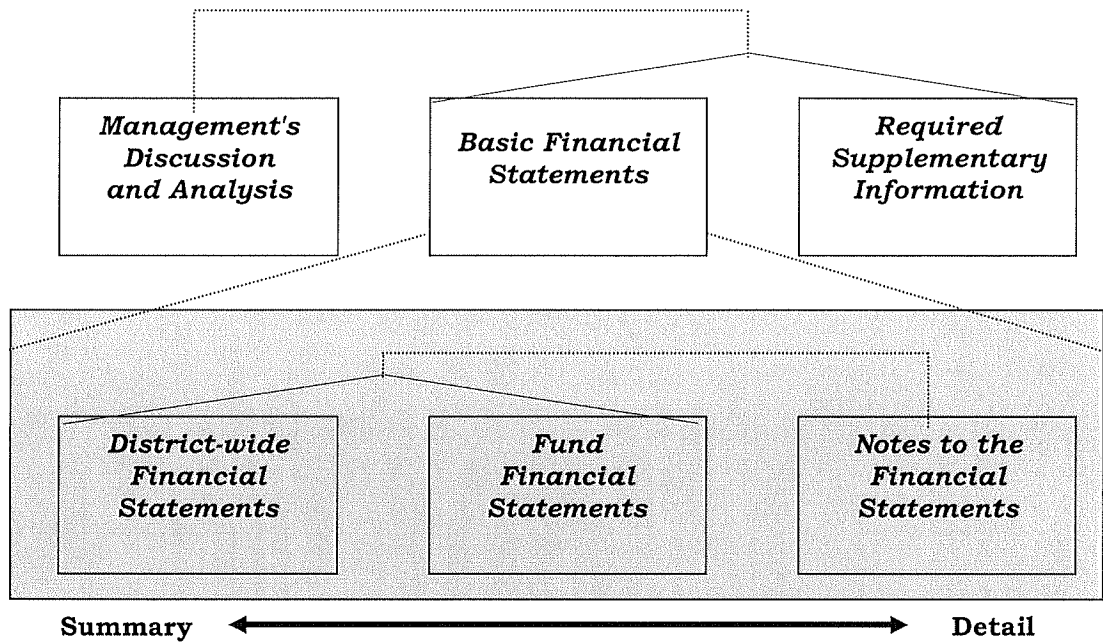


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool program	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues

and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program and preschool program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds also account for the District's Internal Service Fund, which is an accounting device used to accumulate and allocate costs internally among the District's various functions. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool Fund and one internal service fund, Flex-benefit fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary fund include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Current and other assets	\$ 3,543,890	\$ 3,561,002	\$ 26,958	\$ 14,962	\$ 3,570,848	\$ 3,575,964	-0.14%
Capital assets	<u>3,653,862</u>	<u>3,678,992</u>	<u>35,766</u>	<u>44,900</u>	<u>3,689,628</u>	<u>3,723,892</u>	-0.92%
Total assets	<u>7,197,752</u>	<u>7,239,994</u>	<u>62,724</u>	<u>59,862</u>	<u>7,260,476</u>	<u>7,299,856</u>	-0.54%
Long-term liabilities	2,560,637	2,684,354	-	-	2,560,637	2,684,354	-4.61%
Other liabilities	<u>1,770,486</u>	<u>1,720,948</u>	<u>1,371</u>	<u>2,409</u>	<u>1,771,857</u>	<u>1,723,357</u>	2.81%
Total liabilities	<u>4,331,123</u>	<u>4,405,302</u>	<u>1,371</u>	<u>2,409</u>	<u>4,332,494</u>	<u>4,407,711</u>	-1.71%
Net assets							
Invested in capital assets, net of related debt	1,168,862	1,028,992	35,766	44,900	1,204,628	1,073,892	12.17%
Restricted	1,125,592	997,707	-	-	1,125,592	997,707	12.82%
Unrestricted	<u>572,175</u>	<u>807,993</u>	<u>25,587</u>	<u>12,553</u>	<u>597,762</u>	<u>820,546</u>	-27.15%
Total net assets	<u>\$ 2,866,629</u>	<u>\$ 2,834,692</u>	<u>\$ 61,353</u>	<u>\$ 57,453</u>	<u>\$ 2,927,982</u>	<u>\$ 2,892,145</u>	1.24%

The District's combined net assets increased by approximately 1%, or \$35,837, from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$127,885, or approximately 13% over the prior year. The increase is due primarily to decreased spending in the Capital Projects fund this fiscal year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$222,784, or approximately 27%. The decrease was due to increase in salaries and benefits and a cut in our state aid funding.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4

Revenues	Change in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-2010
Program revenues							
Charges for service and sales	\$ 720,354	\$ 735,971	\$ 142,464	\$ 162,720	\$ 862,818	\$ 898,691	-3.99%
Operating grants	900,741	620,620	83,222	68,639	983,963	689,259	42.76%
General revenues							
Property tax	1,744,399	1,716,016	-	-	1,744,399	1,716,016	1.65%
Statewide sales, services and use tax	426,741	460,631	-	-	426,741	460,631	-7.36%
Unrestricted state grants	1,170,187	1,429,089	-	-	1,170,187	1,429,089	-18.12%
Contributions and donations	4,500	8,474	-	-	4,500	8,474	-46.90%
Unrestricted investment earnings	5,470	16,378	155	102	5,625	16,480	-65.87%
Other	<u>15,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,281</u>	<u>-</u>	100.00%
Total revenues	<u>4,987,673</u>	<u>4,987,179</u>	<u>225,841</u>	<u>231,461</u>	<u>5,213,514</u>	<u>5,218,640</u>	-0.10%
Program expenses							
Governmental activities							
Instruction	3,057,946	2,740,255	-	-	3,057,946	2,740,255	11.59%
Support services	1,340,308	1,363,043	-	-	1,340,308	1,363,043	-1.67%
Non-instructional programs	18,851	17,339	249,436	264,107	268,287	281,446	-4.68%
Other expenses	<u>511,136</u>	<u>473,243</u>	<u>-</u>	<u>-</u>	<u>511,136</u>	<u>473,243</u>	8.01%
Total expenses	<u>4,928,241</u>	<u>4,593,880</u>	<u>249,436</u>	<u>264,107</u>	<u>5,177,677</u>	<u>4,857,987</u>	6.58%
Excess (deficiency) before transfers	59,432	393,299	(23,595)	(32,646)	35,837	360,653	-90.06%
Transfers	<u>(27,495)</u>	<u>(39,703)</u>	<u>27,495</u>	<u>39,703</u>	<u>-</u>	<u>-</u>	0.00%
Increase in net assets	31,937	353,596	3,900	7,057	35,837	360,653	-90.06%
Net assets, beginning of year	<u>2,834,692</u>	<u>2,481,096</u>	<u>57,453</u>	<u>50,396</u>	<u>2,892,145</u>	<u>2,531,492</u>	14.25%
Net assets, end of year	<u>\$ 2,866,629</u>	<u>\$ 2,834,692</u>	<u>\$ 61,353</u>	<u>\$ 57,453</u>	<u>\$ 2,927,982</u>	<u>\$ 2,892,145</u>	1.24%

In fiscal 2010, property tax and unrestricted state grants account for approximately 58% of the revenue from governmental activities while charges for service and sales and operating grants and contributions accounts for approximately 99% of the revenue from business type activities.

The District's total revenues were \$5,213,514 of which \$4,987,673 was for governmental activities and \$225,841 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a .1% decrease in revenues and a 6.5% increase in expenses. The decrease in revenues is primarily because of the decrease in our state aid payments. The increase in expenses is related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$4,987,673 and expenses were \$4,928,241 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Instruction	\$ 3,057,946	\$ 2,740,255	11.6%	\$ 1,595,078	\$ 1,529,991	4.3%
Support services	1,340,308	1,363,043	-1.7%	1,335,853	1,356,376	-1.5%
Non-instructional programs	18,851	17,339	8.7%	18,851	17,339	8.7%
Other expenses	<u>511,136</u>	<u>473,243</u>	8.0%	<u>357,364</u>	<u>333,583</u>	7.1%
Total expenses	<u>\$ 4,928,241</u>	<u>\$ 4,593,880</u>	7.3%	<u>\$ 3,307,146</u>	<u>\$ 3,237,289</u>	2.2%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$720,354.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$900,741.
- The net cost of governmental activities was financed with \$2,171,140 in property and other taxes and \$1,170,187 in unrestricted state grants.

Business Type Activities

Revenues and transfers for business type activities during the year ended June 30, 2010 were \$225,841, representing a 2% decrease from the prior year while expenses were \$249,436, a 6% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The decrease in revenues and expenses were due primarily to the fact that the District now has a state preschool program where most of the revenue and expenses are in the General Fund.

INDIVIDUAL FUND ANALYSIS

As previously noted, Lone Tree Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,577,981, slightly above last year's ending fund balances of \$1,684,940. This was a 6% decrease from last year's ending fund balance. The decrease was due to a decrease in categorical funding.

Governmental Fund Highlights

- The District's General Fund balance decreased by \$243,646 as a result of reduced state funding and increased expenditures for negotiated salary and benefits.
- The Capital Projects Fund balance increased from \$749,971 in 2009 to \$945,058 in 2010 due to a decrease of spending in the Local Option Sales Tax Fund.

Proprietary Fund Highlights

Enterprise Funds net assets increased from \$57,453 at June 30, 2009 to \$61,353 at June 30, 2010 representing an increase of approximately 7%. This change is due primarily to the state- approved preschool program that is run through the General Fund.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2010, the Lone Tree Community School District did not amend its adopted budget.

The District's revenues were \$551,901 less than budgeted revenue, a variance of 10%. This variance was a result of receiving less other local revenue and state revenue than budgeted.

Total expenditures were \$921,029 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to not amending the budget to a sufficient amount. The District did some projects in the year that were not budgeted for.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$3,689,628, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 1% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$212,998.

The original cost of the District's capital assets was \$6,456,235. Governmental funds account for \$6,290,182, with the remainder of \$166,053 accounted for in the enterprise, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment category increased from \$311,794 at June 30, 2009 to \$375,435 at June 30, 2010 due to purchasing technology equipment during 2010.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	2010	2009	2010	2009	2010	2009	2009- 2010
Land	\$ 162,365	\$ 162,365	\$ -	\$ -	\$ 162,365	\$ 162,365	0.00%
Improvements other than buildings	65,316	81,645	-	-	65,316	81,645	-20.00%
Buildings and improvements	3,086,512	3,168,088	-	-	3,086,512	3,168,088	-2.57%
Furniture and equipment	<u>339,669</u>	<u>266,894</u>	<u>35,766</u>	<u>44,900</u>	<u>375,435</u>	<u>311,794</u>	20.41%
Totals	<u>\$3,653,862</u>	<u>\$3,678,992</u>	<u>\$ 35,766</u>	<u>\$ 44,900</u>	<u>\$3,689,628</u>	<u>\$3,723,892</u>	-0.92%

Long-Term Debt

At June 30, 2010, the District had \$2,560,637 in general obligation debt and other long-term debt outstanding. This represents a decrease of approximately 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$6.4 million.

Figure A-7

	<u>Outstanding Long-term Obligations</u>		
	Total		Total
	School District		Change
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
General obligation bonds	\$ 2,485,000	\$ 2,650,000	-6.23%
Early retirement	41,809	34,354	21.70%
Net OPEB liability	<u>33,828</u>	<u>-</u>	100.00%
Total	<u>\$ 2,560,637</u>	<u>\$ 2,684,354</u>	-4.61%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- The District continues to evaluate the condition of transportation vehicles and the rotation for replacement of these vehicles.
- The negotiation of salaries and benefits for all district employees. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelli Forbes, District Secretary/Treasurer and Business Manager, Lone Tree Community School District, 303 S Devoe Street, Lone Tree, Iowa, 52755.

Basic Financial Statements

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,679,278	\$ 21,074	\$ 1,700,352
Receivables			
Property tax			
Delinquent	10,742	-	10,742
Succeeding year	1,573,703	-	1,573,703
Accounts receivable	10,177	-	10,177
Income surtax	172,344	-	172,344
Due from other governments	97,646	1,375	99,021
Inventories	-	4,509	4,509
Non-depreciable capital assets	162,365	-	162,365
Capital assets, net of accumulated depreciation	3,491,497	35,766	3,527,263
Total assets	<u>7,197,752</u>	<u>62,724</u>	<u>7,260,476</u>
Liabilities			
Accounts payable	187,008	1,371	188,379
Accrued interest payable	9,775	-	9,775
Deferred revenue			
Succeeding year property tax	1,573,703	-	1,573,703
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	175,000	-	175,000
Early retirement payable	14,108	-	14,108
Portion due after one year			
General obligation bonds payable	2,310,000	-	2,310,000
Early retirement payable	27,701	-	27,701
Net OPEB liability	33,828	-	33,828
Total liabilities	<u>4,331,123</u>	<u>1,371</u>	<u>4,332,494</u>
Net Assets			
Invested in capital assets, net of related debt	1,168,862	35,766	1,204,628
Restricted for			
Categorical funding	31,081	-	31,081
Physical plant and equipment levy	30,214	-	30,214
Other special revenue purposes	119,239	-	119,239
Capital projects	945,058	-	945,058
Unrestricted	572,175	25,587	597,762
Total net assets	<u>\$ 2,866,629</u>	<u>\$ 61,353</u>	<u>\$ 2,927,982</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2010

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Instruction							
Regular instruction	\$ 1,889,438	\$ 459,206	\$ 641,939	\$ -	\$ (788,293)	\$ -	\$ (788,293)
Special instruction	474,632	93,150	94,039	-	(287,443)	-	(287,443)
Other instruction	693,876	166,751	7,783	-	(519,342)	-	(519,342)
	3,057,946	719,107	743,761	-	(1,595,078)	-	(1,595,078)
Support services							
Student	98,099	-	-	-	(98,099)	-	(98,099)
Instructional staff	75,566	-	-	-	(75,566)	-	(75,566)
Administration	556,318	-	-	-	(556,318)	-	(556,318)
Operation and maintenance of plant	453,241	-	-	-	(453,241)	-	(453,241)
Transportation	157,084	1,247	3,208	-	(152,629)	-	(152,629)
	1,340,308	1,247	3,208	-	(1,335,853)	-	(1,335,853)
	18,851	-	-	-	(18,851)	-	(18,851)
Non-instructional programs							
Other expenses							
Facilities acquisition	141,500	-	-	-	(141,500)	-	(141,500)
Long-term debt interest	113,719	-	-	-	(113,719)	-	(113,719)
AEA flowthrough	153,772	-	153,772	-	-	-	-
Depreciation (unallocated) *	102,145	-	-	-	(102,145)	-	(102,145)
	511,136	-	153,772	-	(357,364)	-	(357,364)
	4,928,241	720,354	900,741	-	(3,307,146)	-	(3,307,146)
Total governmental activities							

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest			Governmental Business Type Activities Activities Total		
	Expenses	Charges for Services	Capital Grants, Contributions and Restricted Interest	Activities	Activities	Total
Functions/Programs (continued)						
Business type activities						
Non-instructional programs						
Food service operations	\$ 249,436	\$ 128,843	\$ 83,222	\$ -	\$ (37,371)	\$ (37,371)
Preschool program	-	13,621	-	-	13,621	13,621
Total business type activities	249,436	142,464	83,222	-	(23,750)	(23,750)
Total	<u>\$ 5,177,677</u>	<u>\$ 862,818</u>	<u>\$ 983,963</u>	<u>(3,307,146)</u>	<u>(23,750)</u>	<u>(3,330,896)</u>
General Revenues						
Property tax levied for						
General purposes				1,467,906	-	1,467,906
Debt service				148,117	-	148,117
Capital outlay				128,376	-	128,376
Statewide sales, services and use tax				426,741	-	426,741
Unrestricted state grants				1,170,187	-	1,170,187
Contributions and donations				4,500	-	4,500
Unrestricted investment earnings				5,470	155	5,625
Other				15,281	-	15,281
Transfers				(27,495)	27,495	-
Total general revenues and transfers				<u>3,339,083</u>	<u>27,650</u>	<u>3,366,733</u>
Change in net assets				31,937	3,900	35,837
Net assets, beginning of year				2,834,692	57,453	2,892,145
Net assets, end of year				<u>\$ 2,866,629</u>	<u>\$ 61,353</u>	<u>\$ 2,927,982</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2010

	General	Capital Projects	Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 556,328	\$ 916,776	\$ 200,696	\$ 1,673,800
Receivables				
Property tax				
Delinquent	8,225	-	2,517	10,742
Succeeding year	1,216,864	-	356,839	1,573,703
Accounts receivable	10,087	-	90	10,177
Income surtax	172,344	-	-	172,344
Due from other governments	69,364	28,282	-	97,646
Total assets	<u>\$2,033,212</u>	<u>\$ 945,058</u>	<u>\$ 560,142</u>	<u>\$3,538,412</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 149,078	\$ -	\$ 37,930	\$ 187,008
Deferred revenue				
Succeeding year property tax	1,216,864	-	356,839	1,573,703
Income surtax	172,344	-	-	172,344
Federal grants	27,376	-	-	27,376
Total liabilities	<u>1,565,662</u>	<u>-</u>	<u>394,769</u>	<u>1,960,431</u>
Fund balances				
Reserved for				
Debt service	-	-	4,203	4,203
Categorical funding	31,081	-	-	31,081
Unreserved				
Designated for				
Miscellaneous programs	14,649	-	-	14,649
Undesignated for				
Governmental funds	421,820	945,058	-	1,366,878
Special revenue funds	-	-	161,170	161,170
Total fund balances	<u>467,550</u>	<u>945,058</u>	<u>165,373</u>	<u>1,577,981</u>
Total liabilities and fund balances	<u>\$2,033,212</u>	<u>\$ 945,058</u>	<u>\$ 560,142</u>	<u>\$3,538,412</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2010

Exhibit D

Total fund balances of governmental funds	\$1,577,981
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,653,862
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	199,720
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,775)
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	5,478
Long-term liabilities, including bonds payable, early termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,560,637)</u>
Net assets of governmental activities	<u>\$2,866,629</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

		Capital	Nonmajor	
	<u>General</u>	<u>Projects</u>	<u>Governmental</u>	<u>Total</u>
Revenues			Funds	
Local sources				
Local tax	\$1,388,329	\$426,741	\$ 341,624	\$2,156,694
Tuition	481,370	-	-	481,370
Other	48,763	743	181,545	231,051
State sources	1,724,356	-	166	1,724,522
Federal sources	330,693	-	-	330,693
Total revenues	<u>3,973,511</u>	<u>427,484</u>	<u>523,335</u>	<u>4,924,330</u>
Expenditures				
Current				
Instruction				
Regular	1,625,213	-	186,023	1,811,236
Special	470,654	-	-	470,654
Other	690,425	-	-	690,425
	<u>2,786,292</u>	<u>-</u>	<u>186,023</u>	<u>2,972,315</u>
Support services				
Student	96,431	-	325	96,756
Instructional staff	85,753	-	43,954	129,707
Administration	542,325	-	5,236	547,561
Operation and maintenance of plant	415,551	11,122	34,190	460,863
Transportation	113,067	95,525	6,623	215,215
	<u>1,253,127</u>	<u>106,647</u>	<u>90,328</u>	<u>1,450,102</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>154</u>	<u>154</u>
Other expenditures				
Facilities acquisition	-	-	157,567	157,567
Long-term debt				
Principal	-	-	165,000	165,000
Interest and fiscal charges	-	-	124,663	124,663
AEA flowthrough	153,772	-	-	153,772
	<u>153,772</u>	<u>-</u>	<u>447,230</u>	<u>601,002</u>
Total expenditures	<u>4,193,191</u>	<u>106,647</u>	<u>723,735</u>	<u>5,023,573</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (219,680)	\$320,837	\$(200,400)	\$ (99,243)
Other financing sources (uses)				
Sale of equipment and materials	3,529	-	-	3,529
Proceeds from sale of real property	-	16,250	-	16,250
Interfund operating transfers in	-	-	142,000	142,000
Interfund operating transfers (out)	(27,495)	(142,000)	-	(169,495)
Total other financing sources (uses)	<u>(23,966)</u>	<u>(125,750)</u>	<u>142,000</u>	<u>(7,716)</u>
Net change in fund banlances	(243,646)	195,087	(58,400)	(106,959)
Fund balance, beginning of year	<u>711,196</u>	<u>749,971</u>	<u>223,773</u>	<u>1,684,940</u>
Fund balance, end of year	<u>\$ 467,550</u>	<u>\$945,058</u>	<u>\$ 165,373</u>	<u>\$1,577,981</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit F

Net change in fund balances - total governmental funds \$(106,959)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$182,582	
Loss on disposal of capital assets	(4,498)	
Depreciation expense	<u>(203,214)</u>	(25,130)

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 30,159

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (794)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 165,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	(7,455)	
Other postemployment benefits	<u>(33,828)</u>	(41,283)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 10,944

Change in net assets of governmental activities \$ 31,937

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2010

Exhibit G

	Business Type <u>Activities</u> Nonmajor <u>Enterpris</u>	Governmental <u>Activity</u> Internal <u>Service</u>
Assets		
Cash and pooled investments	\$ 21,074	\$ 5,478
Due from other governments	1,375	-
Inventories	4,509	-
Capital assets, net of accumulated depreciation	35,766	-
Total assets	<u>62,724</u>	<u>5,478</u>
Liabilities		
Accounts payable	<u>1,371</u>	<u>-</u>
Net Assets		
Invested in capital assets	35,766	-
Unrestricted	25,587	5,478
Total net assets	<u>\$ 61,353</u>	<u>\$ 5,478</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit H

	Business Type	Governmental
	<u>Activities</u>	<u>Activity</u>
	<u>Nonmajor</u>	<u>Internal</u>
	<u>Enterprise</u>	<u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$142,464	\$ 17,903
Operating expenses		
Support services		
Administration		
Salaries	9,980	-
Benefits	1,427	-
	<u>11,407</u>	<u>-</u>
Non-instructional programs		
Food service operations		
Salaries	79,386	-
Benefits	20,440	-
Supplies	332	-
Miscellaneous	128,087	-
Depreciation	9,784	-
	<u>238,029</u>	<u>-</u>
Other enterprise operations		
Purchased services	-	18,697
Total operating expenses	<u>249,436</u>	<u>18,697</u>
Operating loss	<u>(106,972)</u>	<u>(794)</u>
Non-operating revenue		
Interest income	155	-
State sources	2,292	-
Federal sources	80,930	-
Total non-operating revenue	<u>83,377</u>	<u>-</u>
Net loss before transfers	(23,595)	(794)
Interfund operating transfer in	<u>27,495</u>	<u>-</u>
Net income (loss)	3,900	(794)
Net assets, beginning of year	57,453	6,272
Net assets, end of year	<u>\$ 61,353</u>	<u>\$ 5,478</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit I

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>	Governmental <u>Activity</u> Internal <u>Service</u>
Cash flows from operating activities		
Cash received from sale of services	\$ 143,214	\$ 17,903
Cash payments to employees for services	(111,233)	-
Cash payments to suppliers for goods and services	(113,166)	(18,697)
Net cash used in operating activities	(81,185)	(794)
Cash flows from non-capital financing activities		
Operating transfers from other funds	27,495	-
State grants received	2,292	-
Federal grants received	64,638	-
Net cash provided by non-capital financing activities	94,425	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(650)	-
Cash flows from investing activities		
Interest on investments	155	-
Net increase (decrease) in cash and cash equivalents	12,745	(794)
Cash and cash equivalents, beginning of year	8,329	6,272
Cash and cash equivalents, end of year	<u>\$ 21,074</u>	<u>\$ 5,478</u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(106,972)	\$ (794)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	9,784	-
Commodities used	16,292	-
Decrease in accounts receivable	(1)	-
Decrease in due from other government	750	-
(Decrease) in accounts payable	(1,038)	-
Net cash used in operating activities	<u>\$ (81,185)</u>	<u>\$ (794)</u>

Non-cash investing, capital and related financing activities

During the year ended June 30, 2010 the District received \$16,292 of federal commodities.

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2010

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$5,596
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$5,596</u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2010

Exhibit K

	<u>Private Purpose Trust Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$1,000
Interest	<u>28</u>
Total additions	1,028
Deductions	
Instruction, regular	
Scholarships	<u>950</u>
Change in net assets	78
Net assets, beginning of year	<u>5,518</u>
Net assets, end of year	<u><u>\$5,596</u></u>

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The Lone Tree Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Lone Tree, Iowa, and the agricultural territory in Johnson and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lone Tree Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Lone Tree Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Johnson County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds; however, it reports the following nonmajor proprietary funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund and Preschool Fund. These funds are used to account for the food service operations and preschool program of the District, respectively. Additionally, the District reports an Internal Service Fund which is used to account for the flex-benefit plan for District employees.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales

and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 500
Buildings	\$ 500
Improvements other than buildings	\$ 500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-20 years

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2010. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax receivables and income surtaxes not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated Fund Balance - The District has designated a portion of its fund balance for specific programs.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$30,214 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the Non-instructional Programs function exceeded the amount budgeted; however, General Fund expenditures did not exceed the District's unspent authorized budget.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$1,453,805, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Fund	Transfers In	Transfers Out
Non-major enterprise		
School nutrition	\$ 27,495	
General		27,495
Non-major governmental		
Debt service	142,000	
Capital projects		142,000
Total	<u>\$ 169,495</u>	<u>\$ 169,495</u>

Transfers generally move revenues from the fund statutorily required to collect resources to the fund statutorily required to expend the resources. The transfer from the Capital Projects Fund to the Debt Service Fund was to make payments of principal and interest on long-term debt. The transfer from General Fund to the nonmajor enterprise, School Nutrition Fund was reimbursement for miscoded expenses during the year ended June 30, 2010..

Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.5%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.5%. The District did not have any ISCAP advance activity during the year ended June 30, 2010.

During the year ended June 30, 2010, the District paid \$5,668 of interest on the ISCAP warrants.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 162,365	\$ -	\$ -	\$ 162,365
Capital assets being depreciated:				
Buildings & improvements	4,601,799	-	-	4,601,799
Improvements other than buildings	326,579	-	-	326,579
Furniture and equipment	<u>1,075,356</u>	<u>182,582</u>	<u>(58,499)</u>	<u>1,199,439</u>
Total capital assets being depreciated	<u>6,003,734</u>	<u>182,582</u>	<u>(58,499)</u>	<u>6,127,817</u>
Less accumulated depreciation for:				
Buildings and improvements	1,433,711	81,576	-	1,515,287
Improvements other than buildings	244,934	16,329	-	261,263
Furniture and equipment	<u>808,462</u>	<u>105,309</u>	<u>(54,001)</u>	<u>859,770</u>
Total accumulated depreciation	<u>2,487,107</u>	<u>203,214</u>	<u>(54,001)</u>	<u>2,636,320</u>
Total capital assets being depreciated, net	<u>3,516,627</u>	<u>(20,632)</u>	<u>(4,498)</u>	<u>3,491,497</u>
Governmental activities capital assets, net	<u>\$ 3,678,992</u>	<u>\$ (20,632)</u>	<u>\$ (4,498)</u>	<u>\$ 3,653,862</u>
 <u>Business type activities</u>				
Furniture and equipment	\$ 165,403	\$ 650	\$ -	\$ 166,053
Less accumulated depreciation	<u>120,503</u>	<u>9,784</u>	<u>-</u>	<u>130,287</u>
Business type activities capital assets, net	<u>\$ 44,900</u>	<u>\$ (9,134)</u>	<u>\$ -</u>	<u>\$ 35,766</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 55,972
Other	228
Support services	
Student support	511
Instructional staff	581
Administration	4,180
Operation and maintenance of plant	2,847
Transportation	<u>36,750</u>
	101,069
Unallocated depreciation	<u>102,145</u>
Total governmental activities depreciation expense	<u>\$ 203,214</u>

Business type activities

Food services	<u>\$ 9,784</u>
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Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
<u>Governmental activities</u>					
General obligation bonds	\$ 2,650,000	\$ -	\$(165,000)	\$ 2,485,000	\$ 175,000
Termination benefits	34,354	15,000	(7,545)	41,809	14,108
Net OPEB obligation	<u>-</u>	<u>33,828</u>	<u>-</u>	<u>33,828</u>	<u>-</u>
Totals	<u>\$ 2,684,354</u>	<u>\$ 48,828</u>	<u>\$(172,545)</u>	<u>\$ 2,560,637</u>	<u>\$ 189,108</u>

Interest costs incurred and charged to expense on all long-term debt was \$113,719 for the year ended June 30, 2010. During the year ended June 30, 2010, the District made principal payments on total long-term debt of \$165,000.

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.300%	\$ 175,000	\$ 117,300	\$ 292,300
2012	4.400%	185,000	109,775	294,775
2013	4.500%	195,000	101,635	296,635
2014	4.600%	200,000	92,860	292,860
2015	4.625%	210,000	83,660	293,660
2016-2020	4.75-4.9%	1,235,000	256,887	1,491,887
2021	5.000%	<u>285,000</u>	<u>14,250</u>	<u>299,250</u>
Total		<u>\$ 2,485,000</u>	<u>\$ 776,367</u>	<u>\$ 3,261,367</u>

Payments on the bonds are made directly by the Debt Service Fund.

Note 7. Termination Benefits

The District offered a voluntary early retirement plan to its full-time licensed employees. Eligible employees must have completed at least thirty years of full-time service to the District and must have attained the age of fifty-five years on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education. The Board makes a determination of whether or not to offer the plan by January 15 of each year.

Participating employees are given a \$15,000 credit to pay their health insurance premiums. The District uses the participating retiree's credit to pay for the retiree's single or family health insurance premiums under the District's current health insurance plan or any subsequent plan, for as long as the retiree meets the insurer's qualifications. The participating retiree receives the same level of coverage that they received for the last two years of employment with the District; however the participating retiree can choose to receive single coverage if they previously received family coverage. The District uses the participating retiree's credit to pay for health insurance coverage until the earliest of the following:

- 1) The amount of the participating retiree's credit is exhausted;
- 2) The insurer no longer permits the participating employee to be covered; or
- 3) The participating retiree dies.

At June 30, 2010, the District had obligations to four participants with a total liability of \$41,809. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$7,545.

Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.30%, 4.10 % and 3.90% of their annual covered salary and the District was required to contribute 6.65%, 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$172,676, \$141,280 and \$147,734, respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 64 active and three retired members in the plan. Of the 64 active members, 13 were not eligible and one was older than age 65 and were excluded from the valuation. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 43,647
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	43,647
Contributions made	<u>(9,819)</u>
Increase in net OPEB obligation	33,828
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 33,828</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$9,819 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year	Annual	Percentage of	Net
<u>Ended</u>	<u>OPEB Cost</u>	<u>Annual OPEB</u>	<u>OPEB</u>
		<u>Cost Contributed</u>	<u>Obligation</u>
06/30/10	\$ 43,647	22.5%	\$ 33,828

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$325,262, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$325,262. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.71 million and the ratio of UAAL to covered payroll was 12%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of

each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are as follows:

	Single	Family
Protector 200 plan	\$446.84	\$1,117.07
Protector 500 plan	\$417.46	\$1,043.63
Co pay \$1,000	\$377.04	\$ 942.57

Retirees monthly premium is \$1,131.12

Upon retirement, the retired participant is assumed to pay 100% of the required premium. The District pays for all or part of the active employees' coverage. The amount depends on whether single or family coverage is elected. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$153,772 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Flexible Fringe Benefits Plan

The District sponsors a flexible fringe benefit plan as part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose among medical, life, and dental insurance. The District contributes \$345.00 per month for full-time staff and \$1,061.09 for administrative staff. The difference between the District's contribution and the amount of programs selected by the employee is added or subtracted from the employee's salary. There were 27 participants in the plan for the year ended June 30, 2010.

Note 13. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 14. New Governmental Accounting Standards Board (GASB) Statements

The District implemented the following statements during the year ended June 30, 2010:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The effect of the adoption of this Statement to the District was to record a liability of \$33,828 for the net other postemployment benefit obligation. The actuarial accrued liability is estimated by an actuary to be \$325,262.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for

capital assets should be applied to these intangible assets. This Statement had no effect to the District since the District had no intangible assets to be reported as of June 30, 2010.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in the Statement also addresses hedge accounting requirements. This Statement had no effect to the District. Furthermore, Iowa Code Chapter 128.10 does not authorize districts to invest in derivative instruments.
- GASB Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. The adoption of this statement had no effect to the District.

As of June 30, 2010, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Issued March 2009, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance clarifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which government is bound to observe spending constraints.
- GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides

financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Required Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Enterprise Funds
 Required Supplementary Information
 For the Year Ended June 30, 2010

	Governmental Funds Actual	Enterprise Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 2,869,115	\$ 142,619	\$ 3,011,734	\$ 3,202,368	\$ 3,202,368	\$ (190,634)
State sources	1,724,522	2,292	1,726,814	2,328,704	2,328,704	(601,890)
Federal sources	330,693	80,930	411,623	171,000	171,000	240,623
Total revenues	<u>4,924,330</u>	<u>225,841</u>	<u>5,150,171</u>	<u>5,702,072</u>	<u>5,702,072</u>	<u>(551,901)</u>
Expenditures/Expenses						
Instruction	2,972,315	-	2,972,315	3,329,000	3,329,000	356,685
Support services	1,450,102	11,407	1,461,509	1,720,200	1,720,200	258,691
Non-instructional programs	154	238,029	238,183	208,300	208,300	(29,883)
Other expenditures	601,002	-	601,002	936,538	936,538	335,536
Total expenditures/expenses	<u>5,023,573</u>	<u>249,436</u>	<u>5,273,009</u>	<u>6,194,038</u>	<u>6,194,038</u>	<u>921,029</u>
(Deficiency) of revenues (under) expenditures/expenses	(99,243)	(23,595)	(122,838)	(491,966)	(491,966)	369,128
Net other financing sources (uses)	<u>(7,716)</u>	<u>27,495</u>	<u>19,779</u>	<u>-</u>	<u>-</u>	<u>19,779</u>
Excess (deficiency) revenues and other financing sources over (under) expenditures/expenses	(106,959)	3,900	(103,059)	(491,966)	(491,966)	388,907
and other financing (uses)	1,684,940	57,453	1,742,393	1,196,098	1,196,098	546,295
Balance, beginning of year	<u>\$ 1,577,981</u>	<u>\$ 61,353</u>	<u>\$ 1,639,334</u>	<u>\$ 704,132</u>	<u>\$ 704,132</u>	<u>\$ 935,202</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except the Internal Service and Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

During the year ended June 30, 2010, District expenditures exceeded the amount budgeted in the Non-instructional Programs function; however, General Fund expenditures did not exceed the District's unspent authorized budget.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
2010	July 1, 2009	\$ -	\$325,262	\$325,262	\$ -	\$2,710,991	12.0%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

Schedule 1

	<u>Special Revenue</u>				
	Student	Management	Physical Plant and Equipment	Debt	
	<u>Activity</u>	<u>Levy</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$122,507	\$ 11,270	\$ 63,825	\$ 3,094	\$ 78,189
Receivables					
Property tax					
Delinquent	-	447	961	1,109	2,517
Succeeding year	-	65,000	131,239	160,600	356,839
Accounts receivable	90	-	-	-	-
Total assets	<u>\$122,597</u>	<u>\$ 76,717</u>	<u>\$196,025</u>	<u>\$164,803</u>	<u>\$437,545</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 3,358	\$ -	\$ 34,572	\$ -	\$ 34,572
Deferred revenue					
Succeeding year property tax	-	65,000	131,239	160,600	356,839
Total liabilities	<u>3,358</u>	<u>65,000</u>	<u>165,811</u>	<u>160,600</u>	<u>391,411</u>
Fund balances					
Reserved for debt service	-	-	-	4,203	4,203
Unreserved fund balances	119,239	11,717	30,214	-	41,931
Total fund balances	<u>119,239</u>	<u>11,717</u>	<u>30,214</u>	<u>4,203</u>	<u>46,134</u>
Total liabilities and fund balances	<u>\$122,597</u>	<u>\$ 76,717</u>	<u>\$196,025</u>	<u>\$164,803</u>	<u>\$437,545</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

Schedule 2

	Special Revenue				Total
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	
Revenues					
Local sources					
Local taxes	\$ -	\$ 65,267	\$128,313	\$ 148,044	\$ 341,624
Other	176,939	-	4,606	-	181,545
State sources	-	30	63	73	166
Total revenues	<u>176,939</u>	<u>65,297</u>	<u>132,982</u>	<u>148,117</u>	<u>523,335</u>
Expenditures					
Current					
Instruction					
Regular	-	23,672	-	-	23,672
Other	<u>162,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,351</u>
Total instruction	<u>162,351</u>	<u>23,672</u>	<u>-</u>	<u>-</u>	<u>186,023</u>
Support services					
Student	-	325	-	-	325
Instructional staff	-	436	43,518	-	43,954
Administration	-	5,236	-	-	5,236
Operation and maintenance of plant	-	24,908	9,282	-	34,190
Transportation	<u>-</u>	<u>6,623</u>	<u>-</u>	<u>-</u>	<u>6,623</u>
Total support services	<u>-</u>	<u>37,528</u>	<u>52,800</u>	<u>-</u>	<u>90,328</u>
Non-instructional programs	<u>-</u>	<u>154</u>	<u>-</u>	<u>-</u>	<u>154</u>
Other expenditures					
Facilities acquisition	-	-	157,567	-	157,567
Long-term debt					
Principal	-	-	-	165,000	165,000
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,663</u>	<u>124,663</u>
Total other expenditures	<u>-</u>	<u>-</u>	<u>157,567</u>	<u>289,663</u>	<u>447,230</u>
Total expenditures	<u>162,351</u>	<u>61,354</u>	<u>210,367</u>	<u>289,663</u>	<u>723,735</u>
Excess (deficiency) of revenues over (under) expenditures	14,588	3,943	(77,385)	(141,546)	(200,400)
Other financing sources					
Interfund operating transfers in	-	-	-	142,000	142,000
Net change in fund balances	14,588	3,943	(77,385)	454	(58,400)
Fund balances, beginning of year	<u>104,651</u>	<u>7,774</u>	<u>107,599</u>	<u>3,749</u>	<u>223,773</u>
Fund balances, end of year	<u>\$119,239</u>	<u>\$ 11,717</u>	<u>\$ 30,214</u>	<u>\$ 4,203</u>	<u>\$ 165,373</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,584	\$19,490	\$21,074
Due from other governments	-	1,375	1,375
Inventories	4,509	-	4,509
Capital assets, net of accumulated depreciation	<u>35,766</u>	<u>-</u>	<u>35,766</u>
Total assets	<u>41,859</u>	<u>20,865</u>	<u>62,724</u>
Liabilities			
Accounts payable	<u>790</u>	<u>581</u>	<u>1,371</u>
Net Assets			
Invested in capital assets	35,766	-	35,766
Unrestricted	<u>5,303</u>	<u>20,284</u>	<u>25,587</u>
Total net assets	<u><u>\$41,069</u></u>	<u><u>\$20,284</u></u>	<u><u>\$61,353</u></u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 4

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$128,843</u>	<u>\$13,621</u>	<u>\$142,464</u>
Operating expenses			
Support services			
Administration			
Salaries	9,980	-	9,980
Benefits	<u>1,427</u>	<u>-</u>	<u>1,427</u>
	<u>11,407</u>	<u>-</u>	<u>11,407</u>
Non-instructional programs			
Food service operations			
Salaries	79,386	-	79,386
Benefits	20,440	-	20,440
Supplies	332	-	332
Miscellaneous	128,087	-	128,087
Depreciation	<u>9,784</u>	<u>-</u>	<u>9,784</u>
	<u>238,029</u>	<u>-</u>	<u>238,029</u>
Total operating expenses	<u>249,436</u>	<u>-</u>	<u>249,436</u>
Operating income (loss)	<u>(120,593)</u>	<u>13,621</u>	<u>(106,972)</u>
Non-operating revenue			
Interest income	71	84	155
State sources	2,292	-	2,292
Federal sources	<u>80,930</u>	<u>-</u>	<u>80,930</u>
Total non-operating revenue	<u>83,293</u>	<u>84</u>	<u>83,377</u>
Net income before transfers	(37,300)	13,705	(23,595)
Interfund operating transfers in	<u>27,495</u>	<u>-</u>	<u>27,495</u>
Net income (loss)	(9,805)	13,705	3,900
Net assets, beginning of year	<u>50,874</u>	<u>6,579</u>	<u>57,453</u>
Net assets, end of year	<u>\$ 41,069</u>	<u>\$20,284</u>	<u>\$ 61,353</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 128,843	\$14,371	\$ 143,214
Cash payments to employees for services	(111,233)	-	(111,233)
Cash payments to suppliers for goods and services	(112,378)	(788)	(113,166)
Net cash provided by (used in) operating activities	(94,768)	13,583	(81,185)
Cash flows from non-capital financing activities			
Operating transfers from other fund	27,495	-	27,495
State grants received	2,292	-	2,292
Federal grants received	64,638	-	64,638
Net cash provided by non-capital financing activities	94,425	-	94,425
Cash flows from capital and related financing activities			
Acquisition of capital assets	(650)	-	(650)
Cash flows from investing activities			
Interest on investments	71	84	155
Net increase (decrease) in cash and cash equivalents	(922)	13,667	12,745
Cash and cash equivalents, beginning of year	2,506	5,823	8,329
Cash and cash equivalents, end of year	<u>\$ 1,584</u>	<u>\$19,490</u>	<u>\$ 21,074</u>

**Reconciliation of operating income (loss) to net cash
provided by (used in) operating activities**

Operating income (loss)	\$(120,593)	\$13,621	\$(106,972)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	9,784	-	9,784
Commodities used	16,292	-	16,292
(Increase) in inventory	(1)	-	(1)
Decrease in due from other governments	-	750	750
(Decrease) in accounts payable	(250)	(788)	(1,038)
Net cash provided by (used in) operating activities	<u>\$ (94,768)</u>	<u>\$13,583</u>	<u>\$ (81,185)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010 the District received \$16,292 of federal commodities.

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2010

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance, End of Year
Drama	\$ -	\$ 526	\$ 941	\$ 415	\$ -
Speech	-	320	250	(70)	-
Vocal choir	3,709	1,941	1,110	-	4,540
Band activity	1,738	5,762	3,956	-	3,544
Athletics	11,595	41,756	43,329	(11)	10,011
Cross country	115	583	686	-	12
Boys' basketball	441	6,764	6,188	-	1,017
Youth boys' basketball	2,834	1,115	1,811	-	2,138
Football	-	10,276	10,557	281	-
Boys' baseball	1,477	3,393	3,671	-	1,199
Golf	58	711	776	7	-
Wrestling	633	1,178	1,152	-	659
Girls' basketball	6	6,418	6,758	334	-
Volleyball	2,589	77	693	-	1,973
Softball	-	3,330	3,169	(100)	61
Student council	998	162	80	-	1,080
Annual	486	3,529	925	-	3,090
Newspaper	684	-	-	-	684
National Honor Society	1,069	-	324	-	745
Cheerleading	62	990	612	-	440
ELP	-	2,295	1,408	(771)	116
PBS	559	2,524	3,368	151	(134)
FFA	7,885	18,941	18,040	-	8,786
FFA projects	5,979	2,543	-	-	8,522
FCCLA	227	1,481	1,331	-	377
Elementary play fund	989	1,564	1,249	-	1,304
Project Pride	455	-	-	-	455
Math and science club	454	-	-	-	454
Art club	841	-	17	-	824
Art projects	225	-	-	-	225
Spanish club	3,203	88	117	-	3,174
Special	2,100	3,422	3,606	-	1,916

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2010

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance, End of Year
Interest	\$ 5,866	\$ 592	\$ 1,674	\$ (459)	\$ 4,325
JH student council	125	1,717	1,642	-	200
Elementary student council	31,865	16,153	10,337	-	37,681
Music boosters club	733	-	-	-	733
Dance squad	1,258	9,162	7,192	-	3,228
Box tops for education	175	-	-	-	175
Parent partner activity	1,820	-	-	-	1,820
Class of 2007	531	-	-	-	531
Class of 2008	589	-	98	-	491
Class of 2009	1,306	-	260	-	1,046
Class of 2010	2,837	4,160	5,169	-	1,828
Class of 2011	604	8,652	6,970	-	2,286
Class of 2012	443	773	759	-	457
Class of 2014	-	-	38	38	-
Class of 2015	-	166	-	(166)	-
Class of 2016	-	2,285	2,399	114	-
Class of 2017	-	-	237	237	-
Athletic banquet fund	267	-	-	-	267
Fine arts fund	4,821	8,382	6,360	-	6,843
Middle school activities	<u>-</u>	<u>3,208</u>	<u>3,092</u>	<u>-</u>	<u>116</u>
Totals	<u>\$ 104,651</u>	<u>\$ 176,939</u>	<u>\$ 162,351</u>	<u>\$ -</u>	<u>\$ 119,239</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Seven Years

Schedule 7

	Modified Accrual Basis						
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues							
Local sources							
Local tax	\$2,156,694	\$2,163,875	\$1,996,416	\$1,549,107	\$1,471,911	\$1,533,092	\$1,535,975
Tuition	481,370	505,364	500,922	482,877	500,515	441,471	390,859
Other	54,112	238,676	292,365	389,636	286,616	227,605	221,756
State sources	1,724,522	1,895,048	1,782,615	1,645,153	1,555,008	1,418,468	1,366,108
Federal sources	330,693	144,465	105,142	108,460	102,010	104,197	78,511
Total revenues	<u>\$4,747,391</u>	<u>\$4,947,428</u>	<u>\$4,677,460</u>	<u>\$4,175,233</u>	<u>\$3,916,060</u>	<u>\$3,724,833</u>	<u>\$3,593,209</u>
Expenditures							
Current							
Instruction							
Regular	\$1,648,885	\$1,632,057	\$1,740,169	\$1,583,853	\$1,768,978	\$1,384,705	\$1,351,801
Special	470,654	473,013	433,192	429,335	21,694	270,118	218,710
Other	852,776	671,197	524,480	550,726	509,967	396,582	441,243
Support services							
Student	96,756	100,401	111,851	118,810	110,542	41,192	38,859
Instructional staff	129,707	153,055	105,427	120,640	72,594	28,164	89,936
Administration	547,561	540,130	530,132	471,290	429,260	412,302	394,132
Operation and maintenance of plant	460,863	422,496	418,067	389,579	379,940	332,059	318,191
Transportation	215,215	119,116	142,995	122,138	131,664	155,031	102,842
Non-instructional programs	154	161	149	134	107	9,353	18,301
Other expenditures							
Facilities acquisition	157,567	324,702	439,356	108,182	122,632	117,898	836,027
Long-term debt							
Principal	165,000	160,000	150,000	145,000	135,000	130,000	125,000
Interest and other charges	124,663	132,613	140,112	147,363	154,112	160,612	166,863
AEA flowthrough	153,772	139,660	128,211	120,260	113,111	111,110	112,742
Total expenditures	<u>\$5,023,573</u>	<u>\$4,868,601</u>	<u>\$4,864,141</u>	<u>\$4,307,310</u>	<u>\$3,949,601</u>	<u>\$3,549,126</u>	<u>\$4,214,647</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 W. Mississippi Drive, Suite 3

Muscatine, Iowa 52761

563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Lone Tree Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lone Tree Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 14, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lone Tree Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Lone Tree Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Lone Tree Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lone Tree Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lone Tree Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Lone Tree Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lone Tree Community School District and other parties to whom Lone Tree Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Lone Tree Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
February 14, 2011

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performed the following duties: recording and processing of cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the certified budget amount in the Non-instructional Program function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure that the certified budget is not exceeded.

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance		\$ 749,971
Statewide sales, services and use tax	\$ 426,741	
Interest earned	743	
Proceeds from sale of equipment	<u>16,250</u>	443,734
Expenditures/transfers out		
School infrastructure		
Equipment	\$(106,647)	
Debt service for school infrastructure		
General obligation debt	<u>(142,000)</u>	<u>(248,647)</u>
Ending balance		<u>\$ 945,058</u>

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levy:

	Per \$1,000 of Taxable <u>Valuation</u>	Property Tax <u>Dollars</u>
Debt service levy	\$ 1.10989	\$ 142,000
Physical plant and equipment levy	2.22558	<u>284,741</u>
		<u>\$ 426,741</u>

LONE TREE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2010

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant